NEWMEX MINERALS INC.

2004 ANNUAL REPORT

NEWMEX MINERALS INC.
Management Discussion and Analysis
for the year ended September 30, 2004

This Management Discussion and Analysis was prepared as of December 21, 2004 and should be read in conjunction with the Consolidated Financial Statements and Notes thereto, which have been prepared in accordance with Canadian generally accepted accounting principles. Additional information relating to Newmex Minerals Inc. is available on SEDAR at http://www.sedar.com. This Management Discussion and Analysis may contain forward looking statements and information. Forward looking statements are statements that are not historical fact and are generally identified by words such as "believe", "expects", "projects", "could" or similar words suggesting future outcomes. By their nature, forward-looking statements and information involve assumptions, inherent risks and uncertainties, many of which are difficult to predict, and are usually beyond the control of management, that could cause actual results to be materially different from those expressed by these forward looking statements and information. Risks and uncertainties include, but are not limited to, risk with respect to general economic conditions, property values, regulations and taxes, civil unrest, corporate restructuring and related costs, capital and operating expenses, pricing and availability of financing, and exchange rate fluctuations. Readers are cautioned not to place undue reliance on these forward looking statements and information.

The Company does not undertake to update or re-issue the forward-looking statements and information that may be contained herein, whether as a result of new information, future events or otherwise.

Overview

Newmex Minerals Inc. ("Newmex" or the "Company") is a Calgary based junior mining company presently trading on the TSX Venture Exchange under the symbol "NMM". The TSX Venture Exchange ("TSX") has put the Company on notice that it intends to transfer the Company's listing to the NEX effective February 4, 2005. The Company is not in compliance with the Tier 2 Maintenance Requirements of the TSX relating to the Company's working capital and activity. While the Company is still assessing its ability to remedy the deficiencies, at this point it seems likely that the Company will be transferred to the NEX.

Newmex's business strategy has been to: (a) manage its Zeballos mineral property in order to maximize its value, through sale, development with a joint venturer providing the necessary development capital, or otherwise, and (b) realize on the Company's short-term investments (Golden Phoenix Minerals Inc. shares) through the orderly disposition thereof. A sale of the Company is also a strategy that would be considered.

In fiscal 2003, management determined after completing a review of its property portfolio that it was best to abandon its non-Canadian mining projects. Accordingly, the Company's only remaining mineral property is its Zeballos property, which consists of a non-operating gold mine and mill. Although the mine and tailings ponds have valid operating permits, mill operation is not permitted at present. Any significant production from the mine is unlikely without a significant investment in mine rehabilitation and exploration. As Newmex's parent, Proprietary Industries Inc. ("Proprietary" or the "parent company"), has advised the Company that it will not advance funds to the Company for exploration and development activities, the Company has essentially suspended such activities.

The Company's cash resources have been from the sale of its Golden Phoenix Minerals Inc. shares (the "GPXM Shares") and limited advances from its parent company. It has utilized these resources primarily towards repayment of its debt, maintaining its mineral properties (now limited to one), and meeting regulatory and other reporting requirements. The Company is desirous of achieving a "threshold" price for its GPXM Shares and therefore the Company's ability to utilize the GPXM Shares as a source of funds is somewhat restricted by its ability to achieve this threshold price.

The Company had net income for the year of $291,677 versus a net loss of $433,725 for the year ended September 30, 2003. The primary factors that account for this variance are: a lower write-down in fiscal 2004 of the Company's mineral properties (discussed above) and a higher gain arising from the sale of GPXM Shares, set off by a lower foreign exchange gain relating to the translation of the Company's debt to EnerGCorp Inc. ("EnerGCorp"). These same combination of factors, together with a couple of additional factors in fiscal 2002 (discussed below), primarily account for the variances in the Company's earnings over the last three fiscal years.

In fiscal 2002, the table below includes in write-downs $251,041 relating to the write-down of investments and notes receivable (i.e., other than mineral properties). Further, the interest bearing parent company advances were reduced by approximately $4 million in fiscal 2002 resulting in lower interest expenses in fiscal 2004 and 2003.

Future net income for the Company will essentially be derived from exchange gains/losses and the sale of short-term investments.

		2004		2003		2002
Expenses	$	122,884	$	112,822	$	179,845
Interest on parent company advances		26,775		36,848		141,312
Write-downs		75,000		827,989		2,917,010
Total expenses		224,659		977,659		3,238,167
Gain on disposal of short-term investments		417,082		217,629		128,165
Foreign currency exchange gain (loss)		91,338		335,378		(9,824)
Income taxes (recovery)		(4,430)		9,889		(548,888)
Revenues		3,486		816		147,614
Net income (loss)	$	291,677	$	(433,725)	$	(2,423,324)
Earnings (loss) per share	$	0.04	$	(0.05)	$	(0.30)
Total assets		797,078		1,453,853		2,628,691
Advances from parent and related company		1,391,312		2,303,453		3,067,960

Operating results

The expenses for the current fiscal year, excluding mineral properties write-down and interest on parent company advances, were $122,884 versus $112,822 for the year ended September 30, 2003. Although the total amounts are comparable, the individual components showed some significant variances. With the abandonment of all but one mineral property, administrative expenses relating to thereto have decreased, with even a recovery being achieved on some expenses. The cost to insure the remaining mineral property rose considerably, which is indicative of the difficulty with insuring a single mineral property and the general trend in the insurance industry of rising premiums. Investor relations expenditures include not only the rising costs thereof, but also an accrual for the anticipated costs relating to the mailing out of year end and annual meeting information.

In fiscal 2003, the Company took a charge against earnings of $827,989 pertaining to the abandonment and write-down of its mineral properties. During the current fiscal year , the Company took a further write-down on its remaining mineral property, resulting in a carrying value for this property equal to the value determined via a comparative properties approach utilizing mineral properties of comparable status to that of the Company's Zeballos mineral property

As the Company's debt to EnerGCorp, a related entity, was advanced and is repayable in US dollars, an exchange gain or loss arises each year, depending upon the change in the rate of exchange between the Canadian and U.S. currencies. The exchange gain for the year ended September 30, 2004 is $91,338 compared to a gain of $335,378 at September 30, 2003.

The Company sold 1,615,000 of its GPXM Shares with an average selling price of US $0.415 in the current fiscal year resulting in a gain of $417,082 versus 1,229,748 GPXM Shares with an average selling price of US $0.273 in the prior fiscal year resulting in a gain of $217,629.

As mentioned above, the Company had net income for the year of $291,677 versus a net loss of $433,725 for the year ended September 30, 2003. Excluding the mineral properties write-downs in each of the 2004 and 2003 fiscal years, the total amount of expenses are comparable for each of the years. The sum of the gains on disposal of short-term investments and foreign currency exchange gains in total are also comparable for the two years, but each of these components differ significantly in quantum. This reflects the trend in the Company's earnings over the last two years and is likely to continue for future years.

Quarterly Information

The following table summarizes key financial information on a quarterly basis for the last two years:

2004

		Q1	Q2	Q3	Q4		Total
Expenses before write-downs	$	26,019	37,199	52,058	34,383	$	149,659
Write-downs		-	-	-	75,000		75,000
Total expenses		26,019	37,199	52,058	109,383		224,659
Gain on disposition of short-term investments		116,340	264,470	28,762	7,510		417,082
Foreign currency gain (loss)		79,614	(15,892)	(33,630)	61,246		91,338
Net income (loss)	$	170,120	211,665	(56,654)	(37,884)	$	287,247
Earnings (loss) per share	$	0.02	0.03	(0.01)	(0.00)	$	0.04

2003

		Q1	Q2	Q3	Q4		Total
Expenses before write-downs	$	26,393	63,229	28,580	31,468	$	149,670
Write-downs		-	-	-	827,989		827,989
Total expenses		26,393	63,229	28,580	859,457		977,659
Gain on disposition of short-term investments		9,923	142,986	7,537	57,183		217,629
Foreign currency gain (loss)		17,195	(8,364)	235,698	90,849		335,378
Net income (loss)	$	1,279	71,468	214,694	(721,166)	$	(433,725)
Earnings (loss) per share	$	0.00	0.01	0.03	(0.09)	$	(0.05)

Fourth Quarter

The Company incurred a loss of $37,884 in the last quarter of fiscal 2004. The principal reason for this loss was the additional write-down of $75,000 taken on the Zeballos mineral property. There was a foreign currency translation gain of $61,246 relating to the EnerGCorp debt, which partially offset the loss created by the aforesaid write-down.

Financial Condition, Liquidity and Capital Resources

As at September 30, 2004 the Company had a working capital deficiency of $801,696 which was a reduction of $366,677 in the deficiency as at September 30, 2003 of $1,168,373. This decrease is primarily a reflection of the Company's repayment of its debt with EnerGCorp from the proceeds of the sale of its GPXM Shares. The ability of the Company to continue operations on an ongoing basis will be dependent upon its ability to find new sources of cash, continued sales of its GPXM Shares, and EnerGCorp remaining patient with the Company's debt repayment. The Company will not undertake any material exploration or development activities, thereby conserving its liquidity.

Contractual Obligations

The Company has a royalty obligation on its Zeballos mineral property of a 1% net smelter royalty, to a maximum of $250,000 payable from gold production. The Zeballos mine is not currently in production and it is not anticipated that production will renew in the foreseeable future, therefore it is unpredictable as to when payments will arise under this obligation. The Company has a further royalty obligation of 10% of gross revenues from the sale of timber rights on the Zeballos property. The Company has not yet sold any timber rights which would give rise to this royalty obligation, and it is unpredictable when, if ever, timber rights will be sold.

Related Party Transactions

The Company's principal creditor is EnerGCorp, a company related through common ownership by Proprietary, Newmex's parent company. For the year ended September 30, 2004, the Company repaid $912,297 of prior advances. The Company also received net additional advances of $56,584 from Proprietary, which funds were primarily used to cover overhead expenditures. The further funding from Proprietary is necessitated by the timing delays between the sale of GPXM Shares and the incurring of certain expenditures. The Company also paid Proprietary $3,000 for office rent. Proprietary provides administrative services to the Company for which no fee is charged.

For the year ended September 30, 2004, the Company paid to a company owned by the President of Newmex, consulting fees of $11,225. These fees were for services rendered to the Company and advice on the operations of its mineral property.

Risk Management

In addition to the Company's going concern risk, the Company's results are impacted by the market risks associated with foreign currency exchange rates, the market price of the GPXM Shares it holds, and environmental risks related to its mineral property. The Company does not utilize derivative instruments to hedge its foreign exchange risk. As the Company's mine site is presently not operating, any environmental risks are being mitigated.

As mentioned previously, the Company has received notice from the TSX of the TSX's intention to transfer the Company's listing to the NEX effective February 4, 2005, due to the Company's non-compliance with the TSX Tier 2 Maintenance Requirements relating to the Company's working capital and activity. It is likely that the Company will be unable to remedy the deficiencies by the deadline and therefore the Company will move to the NEX. The Company does not consider this move to create additional risk to the Company or its shareholders.

Critical Accounting Estimates

The Company's critical accounting estimates are defined as those estimates that have a significant impact on the portrayal of the Company's financial position and operations and that require management to make judgements, assumptions and estimates in the application of Canadian generally accepted accounting principles. Judgements, assumptions and estimates are based on historical experience and other factors that management believes to be reasonable under current conditions. As events occur and additional information is obtained, these judgements, assumptions and estimates may be subject to change. We believe the following are the critical accounting estimates used in the preparation of the Company's September 30, 2004 consolidated financial statements.

(a) Mineral properties and deferred costs

Management established the carrying value of its Zeballos mineral property based upon the comparative properties approach utilizing mineral properties of comparable status to that of the Zeballos mineral property. There is no assurance that should the Company attempt to sell this mineral property, it could realize a net recoverable value equal to the carrying value of this property.

(b) Income tax

The Company has non-capital loss carry-forwards of $1,603,401 and mineral property tax pools of $3,659,855 for which it has not recognized a tax asset associated with the benefit thereof in its September 30, 2004 consolidated financial statements, as the Company does not believe that it can demonstrate that it is more likely than not that it will utilize these tax benefits against future taxable income during the carry forward periods.

Outstanding share data

The Company is authorized to issue an unlimited number of common shares. At September 30, 2004, the Company had 8,278,694 common shares outstanding, of which 2,582,875 common shares are held in escrow pending cancellation. These escrowed shares are held by the parent company, who has agreed to their cancellation. The Company issued no common shares and no options to purchase common shares during the year ended September 30, 2004.

Outlook

The Company will continue with its present business strategies as previously described. While there is no assurance that Proprietary Industries Inc. and/or EnerGCorp Inc. will not demand payment of their advances to the Company, we do not believe that this will be imminent. We expect that the Company will be given every opportunity to remedy its working capital deficiency, reconstitute its capital structure, and maintain its TSX listing.

NEWMEX MINERALS INC.

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2004 and 2003

Mintz & Partners LLP
Chartered Accountants

AUDITORS' REPORT

To: The Shareholders of
Newmex Minerals Inc.

We have audited the consolidated balance sheets of Newmex Minerals Inc. as at September 30, 2004 and 2003 and the consolidated statements of earnings and deficit and cash flows for each of the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at September 30, 2004 and 2003, and the results of its operations and its cash flows for each of the years then ended in accordance with Canadian generally accepted accounting principles.

Mintz & Partners LLP
CHARTERED ACCOUNTANTS

December 14, 2004
Toronto, Ontario

NEWMEX MINERALS INC.

Consolidated Balance Sheets

As at September 30		2004		2003
Assets				
Current assets				
Cash	$	**4,208**	$	126,912
Sundry assets		**35,789**		35,052
Short-term investments (Note 3)		**632,081**		1,091,889
		672,078		1,253,853
Mineral properties and deferred costs (Note 5)		**125,000**		200,000
	$	**797,078**	$	1,453,853
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	$	**77,550**	$	108,884
Advances due to parent company (Note 6)		**374,305**		290,946
Advances due to EnerGCorp, Inc. (Note 6)		**1,017,007**		2,012,507
Income taxes payable (Note 7)		**4,912**		9,889
		1,473,774		2,422,226
Shareholders' Deficiency				
Share capital (Note 8)		**5,233,432**		5,233,432
Contributed surplus (Note 2(h))		**816,444**		816,444
Deficit		**(6,726,572)**		(7,018,249)
		(676,696)		(968,373)
	$	**797,078**	$	1,453,853

Going concern (Note 1)

See accompanying notes

Approved by the Board:

"Signed"
Patrick J. Lavelle, Director

"Signed"
James Bright, Director

NEWMEX MINERALS INC.

Consolidated Statements of Earnings and Deficit

For the years ended September 30		2004		2003
Revenue				
Interest income	$	3,486	$	816
Expenses				
Consulting fees		37,823		25,814
Maintenance costs (recovery)		(3,063)		23,335
Insurance		19,857		6,364
Interest on parent company advances		26,775		36,848
Investor and public relations		16,617		8,593
Mineral properties write-down		75,000		827,989
Office and general expenses		10,876		7,275
Professional fees		37,056		41,441
Travel		3,718		-
		224,659		977,659
Loss before the following		(221,173)		(976,843)
Gain on disposal of short-term investments		417,082		217,629
Foreign currency exchange gain		91,338		335,378
		508,420		553,007
Income (loss) before income taxes		287,247		(423,836)
Income taxes (recovery) (Note 7)		(4,430)		9,889
Net income (loss) for the year		291,677		(433,725)
Deficit, beginning of year		(7,018,249)		(6,584,524)
Deficit, end of year	$	(6,726,572)	$	(7,018,249)
Earnings (loss) per share - basic	$	0.04	$	(0.05)
Earnings (loss) per share - diluted	$	0.04	$	-
Weighted average number of common shares used in computing earning (loss) per share, basic and diluted		8,278,694		8,278,694

See accompanying notes

Consolidated Statements of Cash Flows

For the years ended September 30		2004		2003
Cash flows provided by (used in)				
Operating activities				
Net income (loss)	$	**291,677**	$	(433,725)
Items not involving cash				
Mineral properties write-downs		**75,000**		827,989
Gain on disposal of short-term investments		**(417,082)**		(217,629)
Interest on parent company advances		**26,775**		36,848
Foreign exchange gain		**(83,203)**		(335,378)
		(106,833)		(121,895)
Changes in non-cash operating balances (Note 9)		**(37,048)**		31,662
Cash used in operating activities		**(143,881)**		(90,233)
Financing activities				
Advances from (repayments to) parent company, net		**56,584**		(191,602)
Advances from (repayments to) EnerGCorp, Inc., net		**(912,297)**		(274,375)
Cash used in financing activities		**(855,713)**		(465,977)
Investing activities				
Proceeds from sale of short-term investments		**876,890**		567,757
Mineral properties expenditures, net of recoveries		**-**		(105,189)
Cash received from investing activities		**876,890**		462,568
Net decrease in cash		**(122,704)**		(93,642)
Cash, beginning of year		**126,912**		220,554
Cash, end of year	$	**4,208**	$	126,912

The following cash payments have been included in the determination of earnings:

Interest paid	$	**14**	$	-
Taxes paid	$	**559**	$	9,754

See accompanying notes

1. BASIS OF PRESENTATION AND NATURE OF OPERATIONS

(i) Going concern basis of presentation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, an underlying assumption being that Newmex Minerals Inc. (the "Company") will be able to realize its assets and discharge its liabilities in the normal course of operations.

The continued existence of the Company is dependent upon continued advances from its parent company, Proprietary Industries Inc. ("Proprietary"), and/or EnerGCorp, Inc. ("EGC"), an affiliated entity controlled by Proprietary, the willingness of Proprietary and EGC not to take action to force the payment of the amounts due to them, its ability to obtain additional sources of capital through equity financing, or asset dispositions to finance further acquisitions, exploration and development, and to meet obligations to preserve its interest in existing mineral properties.

Failure to obtain additional funding and/or capital as described above may result in financial difficulties which would make the use of the going concern assumption invalid. If the going concern assumption was not appropriate for these consolidated financial statements, then adjustments would be necessary to the carrying values of assets and liabilities, the reported expenses and the balance sheet classifications used.

(ii) Nature of operations

The Company is engaged in the business of mineral exploration and development. Since inception, the efforts of the Company have been devoted to exploration of natural resources and acquisition of mineral rights. The Company holds mineral properties but has yet to determine whether certain properties contain economically recoverable reserves. The recoverability of the amount shown for mineral properties and deferred costs is dependent on the existence of economically recoverable reserves and future profitable production from the mineral properties. To date, no development projects have been completed, no production has commenced and no significant revenues have been earned.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned inactive subsidiaries, Newmex Minerals USA Inc., and Newmex Nevada Inc.

b) Short-term investments

Short-term investments are recorded at the lower of cost and market value. Market value is defined as being the trading value at the date of the balance sheet. Shares of public companies that are classified as current assets are marked to market as portfolio investments.

c) Mineral properties and deferred costs

Mineral properties are recorded at the lower of cost and estimated recoverable value. Cost includes initial property acquisition costs, related property option payments, exploration and development costs, and other costs directly related to specific properties, but excludes all administration overhead, which is expensed as incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Mineral properties and deferred costs (continued)
If a mineral property is abandoned or it is determined that its carrying value cannot be supported by future production or sale, the related costs are charged against operations in the year of abandonment or determination of impairment of value. The amounts recorded as mineral properties and deferred costs represent unamortized costs to date and do not necessarily reflect present or future values.

d) Future site restoration costs
Future site restoration costs are provided based on management's best estimate of such costs and will be provided for on an anticipated unit-of-production basis as production occurs.

e) Income taxes
The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in the period that includes the date of substantive enactment. To the extent that management does not consider it to be more likely than not that a future income tax asset will be realized, a valuation allowance is provided.

f) Flow-through shares
Share capital includes flow-through shares issued pursuant to certain provisions of the *Income Tax Act (Canada)* (the "Act"). The Act provides that, where share issuance proceeds are used for exploration and development expenditures, the related income tax deductions may be renounced to subscribers. Accordingly, these expenditures provide no income tax deduction to the Company. Share capital is reduced and a future income tax liability is recorded equal to the estimated amount of future income taxes payable by the Company as a result of the renunciations when the expenditures are made. Where at the time of issuance the Company has unrecorded net tax assets exceeding the deductions renounced, no future income tax liability is recorded.

g) Stock options
Effective October 1, 2002, the Company adopted Section 3870 ("Stock-Based Compensation and Other Stock-Based Payments") of the CICA Handbook. As permitted by Section 3870, the Company has applied this change prospectively for new awards granted on or after October 1, 2002. In periods prior to October 1, 2002, the Company recognized no compensation expense when stock options or warrants were issued to employees or non-employees. Under the new recommendations, the Company would otherwise be required to disclose the pro-forma net earnings and earnings per share using the fair market value method of accounting for stock based compensation for options granted to employees and directors. However, as the Company has not granted any options since October 1, 2002, no pro-forma information is provided. The Company will adopt the revised recommendations of the CICA Handbook Section 3870 which became effective for year-ends beginning after January 1, 2004 and accordingly beginning October 1, 2004, the fair value of stock options awards to employees and directors will be recognized as an expense.

For stock-based compensation issued to non-employees, the Company recognizes an expense based on the fair value of the equity instrument issued.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Contributed surplus
As a result of the correction of 2000 and 2001 transactions involving the Company, its 68% parent, Proprietary and Hampton Court Resources Inc. ("Hampton Court"), the balance due to PPI as of October 1, 2002 was reduced. This reduction was treated as a contribution of capital and is recorded as contributed surplus in the attached consolidated balance sheet.

i) Translation of foreign currencies
Transactions denominated in foreign currencies are translated as follows:
(i) monetary items are translated at the rate of exchange in effect at the balance sheet date.
(ii) non-monetary items are translated at historical exchange rates.
(iii) income and expenses items, other than amortization, are translated at the average exchange rates for the year.
(iv) exchange gains or losses arising from the translation of current monetary items are included in the determination of net income/loss.
(v) amortization is translated using the same rates as the assets to which they relate.

j) Earnings per share
Earnings (loss) per share has been calculated and presented in accordance with the recommendations of the Canadian Institute of Chartered Accountants whereby the treasury method is used to calculate diluted earnings per share.

Basic and diluted earnings per share have been calculated using the weighted average number of common shares outstanding during the year.

k) Use of estimates
The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the timing of recognition of revenues and expenses during the reporting period. Actual amounts may differ from these estimates as future events occur.

l) Comparative amounts
Certain comparative amounts have been reclassified to the current year's presentation.

m) Other recent pronouncements
In June 2003, the Canadian Institute of Chartered Accountants issued Accounting Guideline No. 15, *Consolidation of Variable Interest Entities* (AcG-15). This guideline requires the consolidation of "variable interest entities". Management does not expect the adoption of AcG-15 will have a material effect on the Company's operations or financial position.

3. SHORT-TERM INVESTMENTS

		2004		2003
Golden Phoenix Minerals, Inc. ("GPXM")	$	632,081	$	1,091,889

The short-term investments consist of 2,233,043 (2003 - 3,848,043) common shares of GPXM, representing approximately 2% (2003 – 4%) of GPXM's issued and outstanding shares. During 2003 the Company sold its warrants of GPXM to independent investors for gross proceeds of $56,070 US. At September 30, 2004 the trading value of GPXM was US $0.28 (2003 – US $0.45) per share. The Company intends on selling all of its GPMX shares and therefore this investment has been classified as a current asset.

4. NOTES RECEIVABLE

		2004		2003
Former directors	**$**	220,025	$	220,025
Less write-down to estimated net realizable value		(220,025)		(220,025)
	$	-	$	-

The notes from former directors are unsecured, bear interest at 7% per annum, and have no specified terms of repayment. These notes arose in connection with the exercise of options in fiscal 2000. Due to the uncertainty of the collectability of these amounts, the Company has written down these amounts to their estimated net realizable value. If repayment occurs, a recovery will be included in income.

5. MINERAL PROPERTIES AND DEFERRED COSTS

Mineral properties and deferred costs consist of:

	2004							
		Balance, Beginning of Year		**Net Additions**		**Abandoned or Impaired**		**Balance, End of Year**
Zeballos	$	200,000	$	-	$	(75,000)	$	125,000

	2003							
		Balance, Beginning of Year		Net Additions		Abandoned or Impaired		Balance, End of Year
Zeballos	$	922,800	$	105,189	$	(827,989)	$	200,000

6. RELATED PARTY TRANSACTIONS

a) Advances due to related parties consist of:

(i) Parent company
The parent company, Proprietary Industries Inc., owns 67.8% of the issued and outstanding shares of the Company. Advances made by Proprietary Industries Inc. to the Company are unsecured, bear interest at a rate of 10% per annum, and have no fixed terms of repayment. During the year, interest expense in the amount of $26,775 (2003 - $36,848) was charged by the parent company.

(ii) EnerGCorp, Inc.
EnerGCorp, Inc. is a related party by virtue of common management and is a subsidiary of Proprietary Industries Inc. The advances from EnerGCorp, Inc. are unsecured, non-interest bearing, have no fixed terms of repayment and are payable in US dollars at September 30, 2004 of $800,856 ($1,490,856 – 2003). The unrealized foreign exchange gain for the year related to this loan is in the amount of $83,203 (2003 – $335,378 loss).

b) Related party transactions consist of:

(i) During the year, the Company incurred charges of $11,225 ($36,876 - 2003) to directors and companies controlled by directors in exchange for professional services. Of this amount $nil ($5,713 – 2003) is in accounts payable at year end.

(ii) During the year, the company paid $3,000 (2003 - $3,000) to Proprietary Industries Inc. for rent, which is reflected in office and general expenses.

(iii) The Company receives administrative services from its parent company for which no expenses have been recorded in these consolidated financial statements. The fair value of these services is not practicable to determine because of the relationship of the Company with its parent company.

7. INCOME TAXES

a) Significant components of the future income tax asset at September 30, 2004 and 2003 are as follows:

		2004		2003
Mineral properties and deferred costs	$	**1,188,418**	$	1,295,602
Non-capital loss carryforwards		**539,063**		562,406
Other		**(35,758)**		22,776
Valuation allowance		**(1,691,723)**		(1,880,784)
	$	**-**	$	-

7. INCOME TAXES (continued)

b) Income taxes (recovery) differ from that which would be expected from applying the effective Canadian federal and provincial tax rates of 34.37% (2003 - 37.37%) to income or loss before income taxes as follows:

	2004	2003
Expected income taxes (recovery)	$ **98,727**	$ (162,096)
Write-off of exploration and development expenditures	-	309,444
Change in valuation allowance	**(218,719)**	(188,559)
Exempt portion of capital gains	**(85,974)**	(24,673)
Other	**120,633**	(15,564)
Large corporations tax (recovery)	-	26,173
Adjustment for change in enacted income tax rates	**51,245**	62,666
Tax losses of current year not recognized	**29,658**	2,498
Income taxes (recovery)	$ **(4,430)**	$ 9,889

c) The Company has available mineral property tax pools of $3,659,855. The Company also has the following non-capital loss carryforwards, for which no benefit has been recognized in the financial statements, and which expire as follows:

2005	$ 294,048
2006	398,686
2009	574,903
2010	249,474
2011	86,290
	$ 1,603,401

8. SHARE CAPITAL

a) Authorized:
The Company is authorized to issue an unlimited number of common shares.

b) Common Shares Issued:

	Number of Shares	Attributed Value
Balance as at September 30, 2002	8,278,694	$5,233,432
Escrowed shares to be cancelled	(2,582,875)	-
Un-escrowed balance September 30, 2003 and 2004	5,695,819	$5,233,432

8. SHARE CAPITAL (continued)

c) Share Options
The Company may grant stock options to employees, officers, and other individuals who are not employees of the Company as determined by the Board of Directors. As at September 30, 2003 and September 30, 2004, no options were outstanding.

d) Escrow Shares
At September 30, 2003, 2,582,875 common shares were held in escrow releasable as to:

(i) one share for each $0.86 of deferred expenditures incurred on the Chocolate Peak, Wild Irishman and Zeballos properties. Based on previous expenditures, approximately 122,134 shares could have been released.

(ii) all of the shares upon provision of a Level 4 Feasibility Study satisfactory to the TSX Venture Exchange and supporting a value of the above properties of at least $3,932,750.

All of these escrowed shares are owned by Proprietary, and Proprietary has agreed to have these shares cancelled.

e) Earnings per share
Basic and fully diluted earnings per share have been calculated using the weighted average number of common shares outstanding during the year, of 8,278,694 (2003 – 8,278,694). Diluted earnings per share is the same as basic earnings per share as no options or warrants are outstanding to create a diluted effect. Diluted loss per share at September 30, 2003 has not been presented as the effect would be anti-dilutive.

9. CHANGE IN NON-CASH OPERATING BALANCES

The change in non-cash balances related to operations is comprised of the following, for each of the years ended September 30:

		2004		2003
Sundry assets	$	(737)	$	8,268
Accounts payable and accrued liabilities		(31,334)		13,505
Income taxes payable		(4,977)		9,889
	$	(37,048)	$	31,662

10. COMMITMENTS

Pursuant to a purchase agreement dated October 15, 2001 to acquire 12 crown-granted mineral leases at Zeballos, the Company is committed to:

a) a 1% net smelter royalty, to a maximum of $250,000, payable from gold production to Newhawk Gold Mines Limited, and

b) 10% of gross revenues from the sale of timber from properties payable to J. Prochnau & Co.

11. FINANCIAL INSTRUMENTS

The Company does not utilize derivative instruments to manage various types of risks. The Company is exposed to the following risks related to financial assets and liabilities:

a) Currency risk
The Company is exposed to currency risk to the extent that the payment of certain US dollar denominated accounts payable, advances from EnerGCorp, Inc., and short-term investments are subject to fluctuations in the related foreign currency exchange rate.

b) Interest rate risk
The Company is exposed to interest rate price risk to the extent that advances due to its parent company bear a fixed rate of interest.

c) Fair values
The fair values of accounts payable and accrued liabilities and advances due to parent company approximate their carrying values due to the short-term nature of these instruments or they bear interest at market rates.

The fair value of advances from EnerGCorp, Inc. are not practicable to determine since the Company would not enter into similar transactions in the absence of its relationship with EnerGCorp, Inc. and Proprietary Industries Inc.

The fair value of short-term investments consisting of GPXM shares is disclosed in Note 3.

12. SEGMENTED INFORMATION

The Company has one reportable business segment, that being the exploration and development of mineral properties in Canada.

13. SUBSEQUENT EVENTS

Subsequent to year-end, the Company was provided a ninety day notice by the TSX Venture Exchange ("TSX") of its intention to transfer the Company's listing to the NEX, due to the Company's deficiencies with respect to TSX Tier 2 Maintenance Requirements. These deficiencies primarily relate to working capital and activity for a company classified as a Mining Issuer.

Further, the TSX has advised the Company that it is not in compliance with the requirement to have an audit committee comprised of at least three directors, the majority of whom are not employees, control persons, or officers of the Company or any of its associates or affiliates. The Company feels it has now remedied this deficiency.

NEWMEX MINERALS INC.

DIRECTORS

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Director
Toronto, Ontario

James H. Bright
President and Director
Reno, Nevada

Patrick J. Lavelle
Director
Toronto, Ontario

William J. H. Ostrander
Director
Toronto, Ontario

OFFICERS

William H. Berezan
Chief Financial Officer
Calgary, Alberta

James H. Bright
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Graham S. Garner
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STOCK EXCHANGE LISTING
TSX Venture Exchange
Trading Symbol: NMM